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THE BASIC IDEAS

OF MARXIST

ECONOMICS

Peter Green

Socialist Workers Party

EDUCATION *for Socialists*

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These notes have been written with two aims in mind.

One is to provide background reading for educational meetings on economics in SWP branches. The other is to provide a bridge between general introductions to Marxism and reading the classic works such as Marx's **Capital**. Because of the second objective the notes include a large number of definitions of the most important terms that Marxists use. It's not necessary to go through all of these thoroughly in an education meeting—they are there for reference (like a dictionary!).

The notes are quite compressed. They are aimed at those who have already been through a basic socialism educational course and have an understanding of the role of the working class, and what we mean by capitalism. I've assumed that readers will have read an introductory work such as **The Revolutionary Road to Socialism** by Alex Callinicos, and hopefully **The Communist Manifesto** by Marx and Engels.

The pamphlet is divided into two parts—the first dealing with the most general concepts of Marxist economics, the second with the 'dynamics of the system', accumulation and crises. Each part is followed by questions. The material will probably take up two educational sessions, though it could be broken up into more. The pamphlet does not deal with the crisis today, which should require at least a third session, and possibly more if topics such as Imperialism and the Permanent Arms Economy are to be covered.

These notes could be read in conjunction with one of Marx's short pamphlets—such as **Wage-Labour and Capital** or **Wages, Price and Profit**. But neither of these deals with crises very adequately. It is also worth saying (especially to those who keep putting it on introductory reading lists) that **Wages, Price and Profit** was written as a polemical reply to the stupidities of a man called John Weston, and is not easy reading. Personally I think **Socialism: Utopian and Scientific**, by Engels, is a much better introductory text, which also brings out the political importance of Marx's ideas.

PRODUCTION, COMMODITIES, AND SURPLUS VALUE

Production:

Production is the basis of all human societies. Production involves first and foremost the labour of human beings upon the raw material provided by nature. The key to all history up to the present day lies in the changing character of that human labour.

At school we are taught the history of kings and emperors, of wars and religion. Yet without the unceasing daily toil of the great majority nothing else would have been possible. Without the surplus produced by slaves, peasants and workers, kings could not have fought and priests could not have preached.

The existence of classes which performed no labour could only arise once the productivity of human labour had increased to a certain level. The generation of a surplus product over and above the basic necessities of life made possible the division of society into classes. For more than 90 percent of the time during which human beings have wandered the planet they have lived in a state which Marx described as 'primitive communism', without classes.

The critical breakthrough came only around 8,000 years ago with the development of tools which enabled the cultivation of the land in the fertile valleys of the Middle East and Asia. With such tools, human beings were able to provide a surplus over and above their own needs for survival. Once the extra surplus was monopolised by a small group further development was possible: the ruling class could use their control of production to maximise the labour of others. Towns could emerge, and 'civilisation' develop.

History can only be understood, therefore, in terms of the succession of different *modes of production*. Every mode of production (tribal, slave, feudal, capitalist) involves a combination of two dimensions: the *forces of production* and the *relations of production*.

Forces of production

These involve the tools, machines and technology created by human labour. In the widest sense they embrace the knowledge and skills of human beings themselves. It is the development of the forces of

production which makes possible the development of the different stages of human civilisation. There could have been no Roman Empire without the invention of iron tools and weapons. There could have been no capitalism without the sailing ship and the clock.

This does not mean that technological change simply determines everything else in society. On the contrary, it was the spread of the economic relations of capitalism that produced the industrial revolution, not the other way about.

Today the development of technology—of automation, computers and satellites—has reached a level at which the liberation of the vast mass of humanity from unstinting drudgery and poverty is possible for the first time. But that will not happen under capitalism. It will take the creation of socialism by workers themselves to unleash the potential of the forces of production built up by capitalism.

Historical development therefore depends upon the interaction of the forces of production with:

The relations of production

These refer to the way in which production is socially organised. They concern firstly the way in which human labour is allocated to the performance of different tasks in society—the organisation of the *division of labour*. Secondly, they refer to the way in which the various means and forces of production (the land, the tools and machinery, buildings, factories and so on) are distributed between different classes. These two in turn will govern the distinctive way in which the surplus product is extracted and used in different modes of production.

The division of society into classes thus depends upon the different relations of production which prevail in a particular historical period.

The capitalist mode of production

Capitalism is divided into two fundamental classes like earlier class societies. A small minority of the population (less than 75 percent) owns or controls the wealth created by past generations of workers. The vast majority are forced, by their exclusion from access to the means of production, to work for that minority.

But capitalism differs from earlier class societies in two important ways:

I In slave or feudal societies *exploitation* was transparent. The feudal serf, for example, would spend part of the year working on his own land—and part of it, especially at harvest time, working on the lord's land. Alternatively, he would be forced to hand over a large share of what his own land produced to the local baron, or priest, or tax collector. In either case the situation was clear, though he might not feel capable of doing much about it. Part of the produce was seized as a surplus by those with the power to take it.

The labour of serfs and peasants could be divided up into the 'necessary' labour time required to produce what they or their households needed—and the 'surplus' labour time devoted to producing the goods taken by the ruling class and their lackeys.

That division between *necessary* and *surplus* labour time occurs under capitalism as well. It gives us a precise measure of what Marx called the *rate of exploitation*.

But under capitalism that division is obscured by the way in which workers are divorced from control over the process of production, and the allocation of goods—and by the manner in which workers sell their capacity to labour (their *labour power*). It is impossible to tell directly how much of the time you spend at work you are working for yourself, and how much for the bosses, and the ruling class in general.

2 Capitalism is a uniquely *dynamic* and *expansive* system. This does not mean that earlier modes of production were stagnant. But there is no parallel with the astonishing pace of technological change under capitalism—or with the expansion of capitalism across the world, subordinating to itself all other modes of production.

Marx paid tribute to the 'revolutionary' role of capitalism in some famous passages in the **Communist Manifesto**. He wrote (and this was in 1848): 'The bourgeoisie, during its rule of scarce one hundred years; has created more massive and more colossal productive forces than have all preceding generations together.'

The reason for this distinctive role of capitalism lay in the use capitalists made of the surplus they extracted from workers. Previously the owners of wealth and property had by and large spent the surplus on themselves, or on the pursuit of wars as a means of obtaining more wealth. Even the merchant capitalists of Renaissance Florence and Venice devoted most of their gains to the acquisition of land or the construction of the beautiful palaces and churches we can still see today.

The capitalists of the industrial revolution (the period when capitalism came into its own) were by contrast fonder of mills and chimney stacks than of works of art. They devoted much of the surplus not to their own consumption but to investing back in the process of production.

Many people define capitalism simply as a matter of private property. This will not do—because private property existed long before capitalism, and because it is clear today that state-controlled companies (such as the National Coal Board in Britain) or even whole national economies (such as Russia) are subject to the same fundamental laws as private capitalism.

Others argue that the pursuit of profit is the essential

characteristic of capitalism. This is closer to the truth, but still not enough. The Athenian traders of classical Greece had as sharp an eye for profit as anyone today. In some ways they acted as capitalists. But they were not part of a capitalist *mode of production*.

The origins of modern capitalism can be traced back to the rapid spread of the market, international trade, and finance in the fifteenth and sixteenth centuries. Capitalist relations thus grew within the womb of feudalism. The bourgeoisie, unlike the working class, could accumulate wealth and property before it made its bid for political power (with the revolutions in England in 1641 and France in 1789).

But the decisive stage in the emergence of capitalism came when *capital*—this accumulated wealth in the hands of the bourgeoisie—took direct control over the process of production (as the Athenian traders never did). That in turn required that capitalism be in a position to combine the two critical elements of production—the means of production on the one hand, and masses of labour on the other.

The availability of labour required that labour had been freed from the control of the feudal land-owning classes. Labour had to be free in a double sense—free to sell its labour power to the highest bidder, but also ‘free’ from any access to the means of production—the land, raw materials and machinery which could otherwise enable workers to work for themselves.

In one sense the freedom workers have under capitalism is real enough. They can move from one employer to another. Part of their time, outside of work, is their own (though there is no escape from capitalism’s control of the media, entertainment and sport). They are able to organise collectively (even in face of state laws and repression) in a way which was not possible under slavery or feudalism.

But in a more fundamental sense that freedom is an illusion. Workers possess *only their labour power*. To survive they have no choice but to sell that labour power to one capitalist or another. The capitalist control over the *means of production* gives them the ability to use the workers’ labour-power in order to accumulate even more wealth and power for themselves.

Marx defined capitalism as a ‘system of generalised commodity production’. Within that definition are contained two of the fundamental characteristics of capitalism. One is the sale of labour-power as a *commodity*. The other is the competition between capitals which dominates and continually transforms the process of production. Before examining these two aspects of capitalism it is necessary to look at Marx’s analysis of the ‘commodity’, with which he opened his great work on capital.

Commodities

A commodity is simply something that is produced solely for sale on a market. How much is produced will depend primarily on how much can be sold.

We live today in a world in which almost everything has become a commodity. We take that for granted. We measure the value of things in terms of how much money they cost to buy, and even think that money, rather than labour, is the source of wealth in society.

Yet for much of human history most things were not produced as commodities. They were produced directly to meet human needs. Labour was allocated to the production of different things either collectively (in the communal village) or according to the dictates of the local ruler or chief.

In a society of commodity production, by contrast, labour is allocated to different branches of production according to the dictates of the market—according to whether its products can be sold, and at what price. Within each factory or office workers are ordered to different tasks. But in the economy as a whole there is no plan, no human control.

Production may take place, but if the goods cannot be sold then the labour they contain will be wasted. If too much is produced, the price may fall, and companies will close their factories because they're no longer profitable. If there's a world 'surplus' of coal, miners find themselves consigned to the scrap-heap.

And the whole process of production now depends, not on the need for things, but on the ability to sell them and the ability to buy them. If there's a 'surplus' of coal it doesn't mean there are no longer people going cold in winter—it means those people don't have the money to buy coal.

Capitalism as a system of generalised commodity production thus combines *despotism and anarchy*. *There is the despotism of the boss within each unit of production—and there is the anarchy of the market which even the biggest capitalists cannot control (though they may try hard to do so by forming monopolies and using the state).*

Every commodity combines two aspects. Both are necessary:

Use value—fairly obviously expresses the usefulness of a commodity, the reason why people need or want it. Use values are produced in all societies. The use value of bread today is fundamentally the same as it was in ancient societies (though some might say that sliced white bread has an inferior use value).

Exchange value—refers to what a commodity can be sold for. In a state of barter the exchange value of a bag of flour might be expressed by a pair of shoes, or so much wine, or whatever it can be exchanged for. Today, of course, exchange values are expressed in so much money.

A bag of flour will sell for so many pounds and pence, or dollars and cents, and so on.

Whether or not something has an exchange value depends upon the social relations in which it is produced. A loaf of bread baked in the oven at home for your own consumption has a use value but no exchange value. But the same loaf produced to sell in the local market place will have an exchange value.

Clearly there is no correspondence between use and exchange value. Something can be very useful, like oxygen in the air, and yet be free. Something can be relatively useless, like a Cruise missile (though it does have a use for the states which buy it), and have a massive exchange value.

Money and labour time

Under capitalism things are produced not according to how useful they are, but according to how much money can be made from selling them. For bourgeois economists the value of a thing is simply measured by money. Whatever you sell it for, that is what it is worth. But this leaves open the question of what determines the value of money. It's no good answering, 'Whatever you can buy with it', for that just takes us round in a circle.

The easiest way to get out of the circle is first to look at the exchange relation without money. When, say, a bag of flour is bartered for a pair of shoes, we are not seeing just an exchange of things. An exchange of the labour time expended by the miller for the labour time performed by the shoemaker is also taking place.

The exchange of things is one way in which the different acts of labour performed in a society are related to each other. It is a social relationship.

A society of generalised commodity production involves an elaborate division of labour. An enormous variety of different acts of collective labour are linked together only through the mechanism of the market. In such a system barter becomes extremely time consuming and inefficient. Suppose the baker doesn't need a pair of shoes? Or suppose the shoemaker only wants a small amount of flour, requiring much less labour to produce than a pair of shoes?

The spread of commodity production therefore goes hand in hand with the emergence of a special commodity which acts as money. Money is the 'universal equivalent'. It has the capacity to be exchanged for all things. Now instead of the exchange relation

2 bags of flour = 1 pair of shoes

we might have

1 bag of flour = £5.00 (it's a big bag), and

1 pair of shoes = £10.00 (it's a cheap pair of shoes).

But we saw that the exchange of flour for shoes was also an

exchange of the labour of the miller for that of the shoemaker. What is the situation now?

The shoemaker is now receiving £10, which enables him to buy the one bag of flour he needs, and he has £5 spare to buy something else. The money he gets for his shoes now gives him a claim not just on the labour of the miller but on the labour performed by anyone within the society in which that money is an acceptable means of exchange.

Money gives its holder a claim on the labour performed in society as a whole. So much money will give you the capacity to purchase goods containing so much labour time.

Let's suppose that £1 represents an hour of labour time (in reality today it represents more like five minutes, but I'm not trying to be that accurate). Suppose the shoemaker spent £6 on materials and so on, and took four hours' labour putting the shoes together. If he then sells the shoes for £10 he has both covered his costs and received an extra £4 matching the labour time he has put in. He has received a claim on the labour of society which corresponds with his own contribution to that total labour time.

Money represents what all the different acts of labour engaged in producing commodities have in common. It expresses the fact that they are all related to each other not directly, but indirectly through the anarchy of the market-place.

In this world it's the exchange of things that governs the human process of production. Money itself appears as the goal of production and the source of value (the ultimate in what Marx termed *commodity fetishism*). But money only has value to the extent that it gives you a claim on the labour of others. Gold on a desert island is no use at all. Stacks of paper notes are worthless if there is no production.

The labour which creates the value that money represents has a special quality. Marx called it *abstract labour*. Just as the commodity has two aspects, use value and exchange value, so the labour which produces it has two aspects: *concrete labour* and *abstract labour*.

Concrete labour exists in all societies. The term refers to the specific character of the labour of the baker as distinct from that of the shoemaker. Each demands specific skills and tasks, governed by the particular type of use value they produce.

Abstract labour arises only when all the different acts of concrete labour are subordinated to the common goal of selling the commodity for money on the market. The term refers to what all such labour has in common—the expending of human labour time.

The labour theory of value

Marx's explanation of how money represents abstract labour is central to his labour theory of value. In the most general sense this simply means that labour is the source of all wealth. But in the literature

this gets mixed up with a much more specific idea—that commodities will generally exchange for money at a price which corresponds with the amount of value they contain, measured in labour time (or that 'equal values exchange'). In fact the question of precisely at what prices commodities exchange is *irrelevant* to the labour theory of value as Marx developed it.

Let's pursue the artificial example I gave earlier. There I supposed that the shoemaker actually sells his shoes for a net gain (after the costs of the materials) which does correspond to the labour he put in. But suppose he was fortunate enough to be able to do a deal with the only other shoemaker in town to push the price of shoes up to £15 a pair. Now they would both be getting a return of £9 for four hours labour, giving them a claim on the labour of others worth nine hours for each pair of shoes sold. (Remember that £1 is still worth, on average, an hour's labour.)

In fact, if one commodity is sold for more than its value, it must mean that somewhere else in society other commodities are selling for less than their value (if more money is spent on one commodity, there will be less available to spend on the others). The shoemakers are benefiting, thanks to their monopolistic *cartel*, at the expense of the other producers in the society. That's a lot like the way the OPEC countries and the oil companies between them gained from the rise in the oil price in the 1970s.

There is nothing here which refutes the labour theory of value in Marx's sense. On the contrary it is only with the help of that theory that we can really understand what's going on.

But we can take the argument a bit further. The superprofits being made by the two shoemakers are liable in the long run to attract one or two newcomers into the business. They will be able to cut the price of shoes back to £10 and still do as well as the average producer. The two old monopolists will have to cut their price too, or be forced out of business.

Indeed, the newcomers might be in an even stronger position if they've acquired the latest shoemaking equipment which enables them to produce a pair of shoes in only two hours instead of four. They could then cut the price to £9, and still get a return of £3 for only two hours' labour per pair of shoes.

The old monopolists are now in real trouble. Not only have their excess profits disappeared but they're now forced to cut their prices to £9—from which they get a return of £3 for the four hours labour they've put in. Grown complacent with their control of the market, they've failed to keep up with the latest technology. Their labour time no longer matches that which is necessary with the new equipment. Part of their labour is no longer *socially necessary*.

That, in turn, is a bit like what happened to the steel and motor car companies in the United States. After making big monopoly profits in their home market in the 1950s and 1960s they suddenly found themselves undercut by imports of Japanese steel and cars, produced with the latest techniques, in the 1970s.

The concept of *socially necessary labour time* is a critical one, and we'll come back to it later. Here it's worth noting that it simply expresses the effects of competition between producers operating in the same industry. The value of a commodity such as a pair of shoes, or a motor car, is governed not by how long the workers concerned actually take to make it. It will be governed by the amount of labour that is socially necessary, given the available machinery and techniques. If the labour is slow or inefficient it will not count as producing value.

Marx argued that changes in the value of commodities (measured in hours of socially necessary labour time) will be the main 'regulators' of changes in prices over the long run. There are some obvious examples of that in recent times. The dramatic fall in the price of calculators, micro-chips and other electronic products is at root a result of the rapid fall in the amount of labour time necessary to produce those products.

By contrast, commodities where productivity has not risen so rapidly have tended to rise in price even faster than the average rate of inflation. Houses are one example of that. Books (one of the most labour-intensive processes of all) are another.

But *remember*, the labour theory of value does not depend upon there being a precise matching of the relative prices of things with their underlying value. Prices can vary for all sorts of reasons—the effects of temporary shortages of supply, or sudden increases in demand, the effects of monopolies or the acts of governments, and so on. Some capitals gain at the expense of others from these fluctuations. Others lose out.

The purpose of the labour theory of value is not to explain all these variations in prices with which bourgeois economics is so obsessed. Its purpose is to enable us to get to the heart of what makes capitalism tick.

Surplus value and exploitation

In this society money seems to have the capacity to breed more money. If you are fortunate enough to have a sum of money capital, all you have to do is put it in a bank or buy shares and it will seem to grow automatically. But on its own money does nothing and can produce nothing. Where then do the interest, dividends and profits come from?

Since they all represent an increase in the value embodied by the initial sum of money, we can rephrase the question in more general

terms: How does value generate more value—or where does *surplus value* come from?

This is the most fundamental question for all economic analysis of capitalism. Before looking at Marx's answer it's worth considering a couple of the more plausible explanations provided by bourgeois economists:

1 'Capital as a factor of production' is seen as making a separate contribution along with labour (with land thrown in as a third factor generating rent). In this account wages represent a reward to labour, rent to land, profits to capital—all very neat and convenient for the land-owners and capitalists.

The obvious question here is, where did the capital come from in the first place? How did the land-owners manage to monopolise the land? How did the capitalists acquire the money to buy the machinery and means of production?

But more fundamentally it is absurd to see land and machinery as making any sort of 'independent' contribution. Land has to be ploughed and harvested; raw materials have to be mined in the bowels of the earth; machines, like tools, have to be produced by human labour. Raw materials and machinery contain value. They are the product of labour performed in the past, and their value depends upon the socially necessary labour time required to produce them—like all commodities. When used in production they represent *dead labour*, which has to be combined with living labour in order to produce anything.

The value contained in machines passes bit by bit into the value of the final products which are created with their aid. The costs of the initial capital investment have to be covered in the price of the commodities. But that does not explain where the profits come from, or how the capital increases in value.

2 'Profit from exchange'. Another common idea is that capitalists obtain their profits from their success at manipulating the market. They buy cheap and sell dear. They buy commodities below their value, or sell them for more than their value.

Now it is true that one capitalist can, and frequently does, gain at the expense of another in that way. But if one commodity is sold for more than its value, another (as we saw earlier) must be sold for less. In the aggregate, when they are all totted up, these gains and losses cancel each other out.

The business of exchange, of the buying and selling of commodities, cannot *create* any extra value. The earliest capitalists—the merchants and bankers of the 15th and 16th centuries—could make substantial profits out of trade alone, but these were dependent upon the surplus product generated by the feudal

landowners and the independent artisans of the towns. Their gains came at the expense of other classes in society. They were parasitic upon other modes of production.

We have still to explain, therefore, the source of surplus value when capitalism itself dominates the process of production. The key to this, as I argued earlier, lies in the sale of labour power as a commodity by workers.

The sale of labour power

Marx argued that he did not discover the existence of the working class but he did reveal the key to exploitation—the difference between the *value of labour power itself* and the value which labour creates in the process of production.

The value of labour ^{power} ~~time~~ is determined, like any other commodity, by the socially necessary labour time required to produce it. It thus depends upon the amount of labour necessary to produce the basic necessities of life—to feed, clothe, house and so on not just the worker, but the next generation of workers as well.

What counts as necessary here is controversial. In some situations workers will receive wages which are insufficient (less than the 'value of labour power') to keep them healthy and productive. In other cases workers' organisation might be able to push wages up above what is socially necessary. But in all cases the labour time necessary to replace the value of labour power is less than the labour the worker actually performs, once he or she is employed under the command of capital.

This is difficult for workers to see. They are paid in money at the end of the week according to the hours they have worked. But the working class as a whole receives money which enables it to buy only a portion of what has been produced. The claim on the labour of others—which you receive in wages—is less than the labour you have put in.

Suppose, as is roughly correct, that an hour of labour time in Britain today is represented by £10.* A tanner, in other words, gives you a claim on products which on average embody an hour's worth of labour. Then anyone who is receiving less than £10 an hour is getting less than the value their labour creates. And that means the vast majority!

Workers spend part of their time at work producing for themselves and their children. That is the necessary labour time. But the rest of the time they are working for the boss and the ruling class as a whole. That is the surplus labour time, in which they are contributing

*This figure is derived by dividing the total value of new production in Britain in a year by the number of hours of labour time performed by productive workers—with an assumed average 40 hours per week, 48 weeks per year.

to the total pool of surplus value (including the interest which goes to the money-lenders, and the taxes which go to the state and are spent on arms, education and the police).

As in all class societies, the ratio of surplus labour time to necessary labour time is the measure of the rate of exploitation. Under capitalism, however, that ratio can be expressed in value terms as

$$\frac{\text{surplus value}}{\text{value of labour power}} = \frac{S}{V} = \frac{\text{surplus labour time}}{\text{necessary labour time}}$$

So if the worker spends 20 hours in the week on necessary labour, and 20 hours on surplus labour, the rate of exploitation = 20/20—expressed as a percentage, 100 per cent.

Questions on Part One

SHORT QUESTIONS

- 1 What conditions were necessary for the emergence of capitalism?
- 2 Adam Smith, the great bourgeois economist of the 18th century, argued that the 'market' was guided by an 'invisible hand'. Do we agree?
- 3 If money represents labour time what happens with inflation?
- 4 A Picasso sketch, drawn in an hour, sells for a million pounds. Does this refute the labour theory of value?
- 5 British Leyland workers take longer to produce a car than Japanese workers at Toyota or Nissa. Do the British or Japanese cars contain more value?
- 6 What's the difference between labour power and labour?
- 7 Are taxes which go on the National Health Service part of the value of labour power, or of surplus value?
- 8 Are the unemployed exploited?
- 9 Does a worker who buys shares become a capitalist?

DISCUSSION QUESTIONS

- 1 Marx argued that the growth of the forces of production would come into conflict (contradiction) with the relations of production of capitalism. Can we see examples of that in the world today?
- 2 Marx argued that class divisions were necessary to the development of the forces of production, and 'civilisation'. When did that cease to be so?
- 3 'If there was no profit, nobody would be willing to save, and there would be no investment and no economic growth.' What do you say?
- 4 Has the value of labour power increased in the last 100 years, or are workers getting paid more than that value in wages?
- 5 What's wrong with the slogan 'A fair day's pay for a fair day's work'?
- 6 Which public sector workers create surplus value—in other words are 'productive workers'?
- 7 Is the labour of women in the home and rearing children necessary to capital?

Capital

Bourgeois economists define capital as any sort of tool or machine, regardless of the social relations of production in which that tool is used. Marx's approach was completely different. As he wrote: 'A negro is a negro. He only becomes a slave in certain relations. A cotton-spinning jenny is a machine for spinning cotton. It becomes *capital* only in certain relations.'

A capitalist is not simply someone who sells commodities. His goal is to end up with more money than he started with. The self-employed shoemaker sells his goods in order to buy the commodities he needs. This can be represented as $C \dots M \dots C$ (commodities are sold for money, to buy more commodities).

The *circuit of capital*, as Marx called it, starts not with goods but with money. It goes $M \dots C \dots M'$ (a sum of money is used to purchase commodities, which are then sold for a greater sum of money, M'). To analyse this process a little more closely: a capitalist uses money to purchase commodities (raw materials, tools, factories and the labour power of workers) which are then used for the production (P) of more commodities, which are sold for a greater sum of money than the capitalist started with—or $M \dots C \dots P \dots C \dots M'$.

This gives us the notion of capital as something dynamic, something which is perpetually in motion in pursuit of profit. That's why Marx could talk about capital as the 'self-expansion of value'.

It's not just machinery which is turned into capital in this process. Labour power itself is purchased by capital, and consumed by it during the act of production. This gives us a distinction between two types of capital:

Constant Capital. This refers to the money spent on purchasing raw materials, equipment, buildings, machinery and so on. It is termed 'constant' not because its size remains fixed (on the contrary it can grow rapidly), but because its value does not increase in the course of production. The size of the constant capital expresses the amount of

'dead labour' employed in the system.

Variable Capital. This refers to the money spent on purchasing labour power. It is called variable because it is this part of capital that alone generates increased surplus value. How much surplus value, however, will vary according to how hard and how productively the workers actually work.

While labour is the sole source of surplus value, profits have to be calculated on the total sum of capital invested. This gives us a definition of the *rate of profit* as the ratio of surplus value (S) to the combined total of constant (C) and variable (V) capital, or

$$\text{Rate of profit (r)} = S / (C + V).$$

This, it should be remembered, applies to *the capitalist class as a whole, or capital in general*. Individual capitals can gain a bigger share of the total surplus value at the expense of their competitors. Their profits can come not only from the workers they actually employ but from workers employed by other capitals (just as the early merchant capitals grabbed a share of the surplus produced by the peasants who worked for the land-owning class).

The same point applies in reverse. If a company produces products which are uncompetitive, and which make a low profit, or which cannot be sold at all and make a loss—it does *not* mean that workers are not exploited. The workers of that company have still performed surplus labour time. They have produced products which contain potential surplus value. But if the company makes a loss, it means that that surplus value has not been *realised*. The surplus value has not been transformed into actual profits for the capitalist.

The profits and losses made by individual capitals in the course of competition are very important to how the system functions. But they do not undermine Marx's analysis of how capital in general depends upon the surplus value generated by workers.

Increasing surplus value

Capital, as we have seen, depends upon the expansion of surplus value. but surplus value represents surplus labour time, the share of the working day devoted to working for the capitalist. Surplus value can increase therefore in two main ways—through increasing the length of the working day, or through reducing the proportion of the day that is spent by workers producing for themselves.

Absolute surplus value: this was Marx's term for increases in surplus value through the lengthening of the working day. In the early period of capitalism this was the major way of increasing exploitation (and we can still find today, in parts of the Third World or even in the sweatshops of East London, a working day of 12 hours or more).

Alternatively the working day can be made more intense. Breaks are cut, and every minute of the day workers are forced to keep

working.

But there are limits to this. The health and productivity of workers begins to suffer if they are worked too hard. Workers themselves fought long struggles to win and enforce limitations on the length of the working day.

Relative surplus value: this refers to increases in surplus value through reducing the time taken up by 'necessary' labour. The portion of the working day devoted to producing surplus value is thus increased.

This may occur through capitalists forcing down workers' standards of living. But, as with increases in the working day, there are limits to this imposed both by the need to maintain a healthy and productive workforce, and by the existence of workers' organisation.

The most important source of increased surplus value for advanced capitalism therefore depends upon increased productivity. Increases in productivity mean that the goods which the worker needs fall in value (they take less labour time to produce) and this means that the value of labour power falls. The amount of goods the worker receives may stay the same or even increase, but the share of labour time taken to produce them falls.

These increases in productivity result primarily from the mechanisation of production and the introduction of new technologies. These need more examination. *But note*: it is not increases in productivity as such which increase relative surplus value. For capital in general, *increases in productivity must produce a fall in the value of labour power* (or an increase in the share of the product going to capital) for the mass of surplus value to increase.

Competition

In the previous section we talked about how surplus value can increase for capital as a whole. But for individual capitalists, increases in productivity can give a competitive advantage over their rivals. In the short term at least that can give them increased profits, or a higher share of the total surplus value.

The continual pursuit of competitive advantage as a means to higher profits is central to the dynamic of capitalism. Competition existed before capitalism. Feudal lords competed over land, and merchant capitals competed over control of different markets. But it was only when capitalism took over the production process itself that competition became inescapable. The cheapening of commodities through increases in productivity became the most devastating instrument of competition.

With the industrial revolution in Britain, workers were concentrated in factories and mills, subjected to an extreme division of labour, and subordinated to the rhythm of machinery. The

unprecedented increases in productivity enabled the Lancashire cotton industry to sweep the markets of the world. Those who persisted with the old methods of production—the handloom weavers in Britain, or the clothmakers of India—could not match the reduction in the costs of production made possible by machinery. Much of their labour time had ceased to be *socially necessary*. Eventually they were wiped out.

The capitalists who were first with the new methods of production made enormous profits. But, as always, those profits did not last. The machinery became generally available. In Britain, and elsewhere, hundreds of new competitors entered the business, also setting up with the new methods of production. As more and more cotton goods were thrown onto the market the price began to fall rapidly.

Underlying the fall in price was the fall in the ‘socially necessary labour time’ required to produce cotton goods. The first with the new methods had been able to sell the goods above their new value. They were able to make excess profits. But as the new methods of production were generalised prices fell and those excess profits disappeared.

In the story of the cotton industry of the 18th and 19th centuries, which Marx studied closely, we have the key to both the booms and the slumps of capitalism. The pressures of competition explain capitalism’s *drive to accumulate*. The way in which new technologies first give rise to increased profits for the innovators, but are then generalised, producing a fall in price and a decline in profits, holds the key to ‘*the tendency of the rate of profit to fall*’.

The drive to accumulate

The pressures of competition mean that no capitalist can afford to relax. If they fail to maintain the productivity of their workforce they will be in danger of being undercut in the market-place. Sales will drop, profits decline and they will become vulnerable to bankruptcy or takeover.

The threat of being overtaken forces every boss to maximise the exploitation of his workers. But it also forces them to invest a share of the surplus value they extract back into the process of production. They have to keep expanding and introducing the latest available techniques of production.

Capitalists are driven to accumulate their surplus value as additional capital. This is the most distinctive feature of the capitalist mode of production. Obviously a chunk of the profits they make goes to the directors and shareholders in dividends. The capitalists look after themselves. But if they consume too much of their profits compared to their rivals, eventually their productivity will lag behind.

That, in a nutshell, is what has happened to British capitalism in

the twentieth century. Cushioned for so long by the British Empire, they took it easy compared to their predecessors, the pioneers of the industrial revolution. When they finally woke up to the threat of competition from rivals in Europe and Japan in the 1960s they were way behind. Despite all their attacks on workers' wages and conditions they have failed to catch up.

On the whole, however, capitalists are governed, as Marx put it, by the slogan 'Accumulate, accumulate! That is Moses and the prophets... Accumulation for the sake of accumulation, production for the sake of production.'

It is the drive to accumulate which underlies the great historical achievement of capitalism—its expansion of the forces of production. The investment of surplus value gives rise to the rapid growth of which capitalism is capable in certain periods. It also encourages and implements capitalism's wave after wave of scientific and technological innovation.

Accumulation also underlies some of the most important transformations of the system since it first emerged. These include:

The concentration and centralisation of capital: Concentration simply refers to the build-up of capital as a result of a company investing its own profits. Centralisation, however, involves the absorption of small companies into one large corporation.

The weak and inefficient under capitalism go to the wall. Their assets are bought up on the cheap by their rivals. With the development of the stock exchange, and the availability of large loans from the banks, even large companies become vulnerable to takeover.

Eventually, as we have seen in the twentieth century, capital becomes extremely concentrated in the hands of a few hundred giant corporations which dominate every major national economy. We see the emergence of what has been termed 'monopoly capital'.

The rise of monopolies might seem to imply the disappearance of competition altogether. In certain industries and in certain countries this has happened to some degree. The Standard Oil company of the Rockefellers was able to impose its stranglehold on the industry throughout the USA (and even after it was broken up into separate companies by the state they still colluded in secret to fix prices and shares of the market). But competition has not disappeared. It has simply changed its character. In particular it has become internationalised. That stems from another fundamental tendency of capitalism, the development of a world economy:

The rise of the world market: From its origins, capitalism was a system that transcended national boundaries. Merchant capital made its biggest profits out of international trade. The import of silver from the Spanish colonies in Latin America helped finance the great economic

expansion of 16th-century Europe. The enormous profits made by British slave traders and plantation owners provided the 'primitive accumulation' of capital necessary for the Industrial Revolution.

But the rapid growth of productivity as a result of mechanisation and factory production made sales on the world market imperative. In the 19th century Lancashire could produce enough cotton before breakfast to clothe Britain's workers. For the rest of the time it was supplying the world.

An international division of labour emerged. All national economies (even the biggest, such as the USA and Russia today) became dependent upon each other. The fortunate countries which were first to industrialise acquired the economic and military power to colonise others. Some national economies, such as India, were subordinated to the role of providing raw materials to the manufacturing centres of the imperial power.

Today the international division of labour is taking a different form. Huge multinational companies have emerged which do not just sell, but also produce in many countries. Some industries, such as electronics, have seen the transfer of manufacturing operations to former colonies in search of cheaper labour and competitive advantage.

The concentration of resources and profits in the hands of the few has reached a scale beyond what even Marx imagined. But that has not abolished either the competition or the anarchy of the system. On the contrary, on a world scale competition has never been more intense. No country can escape from the anarchy unleashed by the global crisis.

Accumulation, in other words, also gives rise to acute contradictions for the system. It explains not just the rapid expansion of the system but also the chronic crises into which capitalism can decline.

Accumulation is seen by apologists for capitalism as benefitting everyone. It is true, in the advanced countries at least, with the expansion of capitalism workers have gained increases in their standard of living. But their share of production has not risen. The rate of exploitation has not fallen. The relative power and wealth of the capitalist class has increased.

As Marx put it in one of his most powerful passages, summarising the effects of accumulation:

'...within the capitalist system all methods for raising the social productivity of labour are put into effect at the cost of the individual worker; that all means for the development of production undergo a dialectical inversion so that they become means of domination and exploitation of the producers; they distort the worker into a fragment of a man, they degrade him to the level of an appendage of a machine,

they destroy the actual content of his labour by turning it into a torment; they alienate from him the intellectual potentialities of the labour process in the same proportion as science is incorporated in it as an independent power; they deform the conditions under which he works, subject him during the labour process to a despotism the more hateful for its meanness... It follows therefore that in proportion as capital accumulates, the situation of the worker, *be his payment high or low*, must grow worse... Accumulation of wealth at one pole is therefore at the same time accumulation of misery, the torment of labour, slavery, ignorance, brutalisation and moral degradation at the opposite pole, ie on the side of the class that produces its own product as capital.'

The tendency of the rate of profit to fall:

The fundamental contradiction of accumulation is that it tends to undermine the very thing which lures it forward, the rate of profit.

The rate of profit for capital in general is expressed, as we saw in the section on 'capital', by the ratio of total surplus value to total capital invested, or by the equation $r = S/(C + V)$. From this it follows that the rate of profit will depend upon two critical relationships. One is the rate of exploitation. The other is the ratio of constant to variable capital, which Marx termed '*the organic composition of capital*'. Marx argued that in the long run a rise in the organic composition of capital would lead to a fall in the rate of profit.

The organic composition of capital is commonly measured as C/V or as $C/(C + V)$, the ratio of constant capital to total capital (refer back to the earlier definitions of constant and variable capital, if you're still unsure about them). Accumulation of constant capital can take place without increases in the organic composition of capital; it simply needs to be matched by an increase in variable capital—an increase in the workforce employed. But if that happens capitalism will begin to exhaust the available supply of labour, and it will be subject to pressure from rising wages, as capitals compete with each other for workers.

In reality pressures of competition will lead to the introduction of new techniques which replace workers by machinery. That will tend to replenish the *reserve army of labour* as fewer workers are now needed to produce the same level of output (although if accumulation is rapid enough, and output expands greatly, those workers will be employed elsewhere in the system, and unemployment need not rise).

Mechanisation will also bring increases in productivity, which make possible a fall in necessary labour time, or an increase in relative surplus value.

But those gains for capital are purchased at a price. The organic composition of capital tends to rise. The amount of dead labour embodied in equipment, machinery and buildings rises relative to the

employment of living labour. But dead labour by itself cannot generate any extra-surplus value. The rate of profit will therefore fall, unless the rate of exploitation increases and the mass of surplus value grows, and even these may not be sufficient.

Suppose we take an artificial example, in order to show how the figures work. Consider a factory where the constant capital (buildings, plant and so on: C) is £60 million and the variable capital (the cost of the workforce: V) is also £60 million; and from this the capitalist realises surplus value (S) of £30 million. The total 'living labour' is therefore £90 million ($S + V = 30 + 60$); the rate of exploitation is 50 percent ($S/V = 30/60$); and the rate of profit is 25 percent ($R = S/(C + V)$ or $30/60 + 60$).

We may now suppose that, through an investment in new technology the constant capital is raised to £70 million, and the workforce cut, reducing variable capital to £50 million. Assuming that the rate of exploitation remains the same, at 50 percent, this gives surplus value of £25 million. The rate of profit, therefore, will have fallen ($R = S/(C + V)$ is now $25/(70 + 50)$ or 21 percent.

The capitalist can of course counterbalance this by increasing the rate of exploitation—but in reality, if accumulation in the economy generally is proceeding rapidly this will be difficult to do. With the system doing well, unemployment is likely to be low and workers well able to organise and resist any attacks.

(In this sense, by resisting attempts to increase the rate of exploitation when the rate of profit is falling, workers can contribute to capitalism's difficulties. This doesn't mean, however, that workers' struggles are responsible for crises, nor that, if workers abstain from fighting back, capitalism will be able to escape its contradictions.)

But why, runs a common objection, do capitalists invest in such a way as to raise the organic composition if that hurts their rate of profit? The answer lies in the character of competition.

The first capitalists that invest in a new mechanised technique are able to gain an advantage over their competitors. But when the technique is taken up by all competitors the new socially necessary labour time asserts itself. The value of the commodity falls and the temporary excess profits disappear. The final result is that the organic composition of capital has increased and the average rate of profit falls.

A classic example of that in recent years has been the micro-electronic and computer industry. The first firms into the fray made huge profits. But as capacity in the industry increased, and more competitors entered the field, prices collapsed dramatically. The rate of profit declined, and the weakest firms (such as Sinclair) have gone under.

Individual capitals believe they can increase their profits through

new technology. Individually they can. But the pursuit of their own competitive interests tends to undermine the collective interests of them all. That is a precise indication of what Marx meant by the contradictory nature of capitalism.

This does not mean that the rate of profit falls continuously throughout the history of capitalism. If that were the case the system would long since have ground to a halt. Marx himself mentioned a number of 'counteracting tendencies'.

Counteracting tendencies

An exceptional increase in the rate of exploitation, forcing down the workers' standard of living, is one example of a tendency 'counteracting' the fall in the rate of profit. Access through foreign trade to sources of cheap raw materials is another. Most important (and controversial) of all in practice has been the cheapening of constant capital itself.

Increases in productivity in the industries producing the means of production, such as factories making machinery, or sources of raw materials, will lead to a fall in the value of their products, as in any industry. That fall will not only mean that the means of production becomes cheaper. It will also force what Marx termed a 'moral depreciation' of constant capital already in existence. Capitalists stuck with older and more expensive machinery will be faced with competitors using newer and cheaper versions. They will suffer a competitive disadvantage. The older machinery will suffer a forced depreciation (part of its value will have to be written off, just as labour time in excess of that which is socially necessary has to be written off). This reduces the value of constant capital, counteracting its tendency to rise—and the consequent effects on the rate of profit.

But this depreciation represents a loss of capital value for the particular companies concerned. For that reason it will *add* to their difficulties, at least in the short term.

There is a parallel here with increases in unemployment, or the reserve army of labour, as Marx put it. Rising unemployment will help capitalists in their offensive against working class organisation at the point of production, and so help to increase the production of potential surplus value. But in the short term at least increases in unemployment add to the difficulties capitalists face in *selling* their products, or *realising* that surplus value.

So there is no easy way for capitalism out of its difficulties. The important point to understand is that the operation of the counteracting tendencies we have discussed so far tends to be most effective at a time of crisis for the system. When the system is expanding rapidly, and accumulation is rapid, increases in the organic composition of capital tend to prevail over the counteracting

tendencies. The rate of profit falls as a result.

Crises, however, can help capitalism overcome its difficulties, at least for at time.

Before looking at crises in more detail, it is worth considering another aspect of the system—the role of the banks.

Banks and the credit system

The surplus value produced by workers does not just go in profits to industrial capitalists. Parts of it go to the land-owners as rent, to the state as taxes, to the banks (and those who deposit money with the banks) as interest.

Industrial capitalists are willing to let the banks and other financial institutions take a share of the loot because they play a useful role for the system. Capitals need to build up large sums of money before they can invest it. Until they are ready to invest, they can deposit their spare cash with the banks—and capitals which are ready to invest, but don't have enough money yet, can borrow.

The banking system in fact helps to accelerate the process of accumulation. It speeds up the process by channelling money from those who are reluctant to invest to those who are willing to. So, for example, in the 1970s Western banks received deposits from the Middle East oil countries and from companies reluctant to invest in industry because of the slump, and lent them to governments in countries such as Brazil, Mexico and Poland.

That lending helped prop up the world economy for a time. But as the example suggests, any system of credit (lending) is vulnerable if the borrowers are unable to repay.

Banks are powerful institutions. They help to accelerate the centralisation of capital into large monopolies. They also act to bankrupt the weak, loss-making capitals when they cut them off from further loans.

As periods of boom reach their peak, the rate of interest on loans rises. The demand for loans for investment increases. Expectation of future profits tends to generate speculation on the stock markets and trade in commodities. Capitalists are willing to gamble on profits increasing and prices rising, enabling them to repay their debts with interest.

But the financial system and the stock market always depend upon the creation of surplus value at the point of production. As the boom continues the amount of surplus value fails to rise sufficiently to meet all the claims on it. The combination of rising interest rates and a falling rate of profit can be devastating.

Banks themselves can collapse. They lend out 'other people's money'. If depositors all try to take their money out at once the bank will run out of funds. Unless the state or the central bank steps in as

'lender of last resort', the bank will be unable to cope. The financial system itself can crash, as happened most dramatically in 1931.

Crisis

Crises express all the contradictions of capitalism. They are periods when the anarchy of a system governed by the market and competition is exposed, and when the inability of the system to meet basic human needs becomes obvious. At a time of crisis, as Marx put it, it becomes clear that '*the true barrier to capitalist production is capital itself*'.

By this Marx meant that the purpose of production under capitalism is not to meet human needs but to make profit, or serve the expansion of capital. Workers who have spend their lives in the service of capital are consigned to the scrapheap with nothing. Unemployment increases not because there is no work to be done but because it is no longer profitable to employ so many workers.

In earlier modes of production the problem was always one of underproduction. The harvest failed, or wars destroyed town and countryside. Under capitalism, for the first time in history, we get crises of *overproduction*. Too much steel is produced—so steel plants that are still viable have to be closed down. Too much food is produced—so the surpluses are destroyed and governments pay farmers *not* to plough the land.

Meanwhile large parts of the world lack the machinery, vehicles and buildings that could be made with that steel. Millions starve for lack of food. The problem is not that the need is not there but that people lack the money to buy.

These are the most obvious, and appalling, characteristics of capitalist crisis. But they do not in themselves explain why such crises occur. Nor do they explain why it is that for periods of time capitalism is capable of expanding rapidly, to the point where it can even afford substantial reforms and increases in the living standards of workers.

One problem here is that there is a chronic confusion in the literature between the regular cycle of alternating booms and slumps (what I call the short-term cycle), which has characterised the history of capitalism since its origins, and longer periods of sustained expansion, and chronic crisis in the system. Words such as slump, depression, and crisis are used interchangeably.

Here I want to make a distinction which can be found in Marx, but which he never spells out fully (mainly because he never got to the stage in **Capital** which would give a systematic treatment of crises), between the short-term cycle and periods of crisis.

The cycle of 'booms' and 'slumps'

In Marx's day this lasted round about ten years, from peak to peak, or trough to trough. Marx argued that this was based on the

average life time of most fixed capital (the part of constant capital made up of machinery, equipment and so on). But other factors, such as the expansion and contraction of bank lending, or the fluctuations in world trade (or in recent times the actions of governments) could affect this pattern.

In any event the key to the cycle lies in the fluctuations of investment (or the rate of accumulation). A wave of investment in new machinery will mean that demand expands faster than output. Industries producing means of production will expand very rapidly. But as that investment starts to throw more and more products onto the market, output starts to outpace demand. Investment slows down and the means of production industries are thrown into acute slump. Workers in construction, steel and other such industries are laid off, demand falls generally, and the whole system contracts.

But as capitalists find that the equipment they purchased in the last round of investment is wearing out, they embark on a new wave of investment...

There seems to be no reason why this cycle should not go on forever in a regular rhythm. But the system, like human beings, also gets older.

Periods of crisis

These are times when the cycle does not disappear, but 'the booms get shorter and weaker and the slumps longer and deeper'. The long crisis since the early 1970s has shown this pattern clearly. Each successive slump (1970-1, 1974-5 and 1980-2) has been deeper, each recovery period weaker (the late 1970s and the years since 1982). In such periods of crisis investment declines as usual in the slumps but is much slower to recover in the booms.

The explanation for this lies in Marx's account of the 'tendency of the rate of profit to fall' as a result of long periods of accumulation. When this happens accumulation itself begins to weaken. Partly that's because some capitals are short of profits. Partly it's because even those with spare cash on their hands are reluctant to risk investing it in large factories or employing more workers. Instead they prefer to leave it in the bank accruing interest, or use it to take over other companies. But the failure to invest surplus value, to put it back into the productive process, itself makes the crisis worse.

In the past capitalism has been able to emerge from such periods of crisis. The crisis of the 1880s was followed by the formation of large corporations, and the scramble to carve up the world—which was described by Lenin and Bukharin in their work on imperialism. The crisis of the 1930s ended with the Second World War, and was followed by the long boom—the era of the 'Permanent Arms Economy' discussed in the works of Kidron and Harman.

Periods of crisis have helped in the past to rationalise the system. They have acted to purge it of its accumulated disorders. The counteracting tendencies to the fall in the rate of profit come into play with the destruction or devaluation of accumulated capital and sustained attacks on working class organisation in order to raise the rate of exploitation.

But capitalism as a system has continued to age. It has become more centralised in the hands of giant corporations. It has been subject to the rapid growth in the role and activity of nation states. The banking system has become international. None of these developments have prevented the return of crisis on a global scale. But they have decisively affected the course of the current crisis.

Conclusion

There is no space here for a further discussion of the crisis today. To find this, readers are referred to my pamphlet **The World Economy in Crisis**, to Chris Harman's **Explaining the Crisis** and Nigel Harris's **Of Bread and Guns**, and to various articles appearing regularly in **Socialist Worker Review** and **International Socialism**.

Two points are worth emphasising in conclusion, however.

Firstly, the basic ideas and concepts of Marx's **Capital** are as relevant today as they were when first written. Capitalism has grown in size and changed its form (see especially the 'Education pack for socialists' pamphlet **Marxism and the Modern World** for an analysis of imperialism and state capitalism). But it still rests on the daily labour of the mass of the working class. It is still governed by the intense and sometimes bloody competition between the capitalists themselves. It is even more prone to chronic crisis which exposes its historic limitations.

Secondly, however, the resolution of the current crisis cannot be predicted in advance. Marxism enables us to understand what is happening, and serves as a guide to action. It cannot predict the final collapse of capitalism. That will depend upon the workers of the world realising that it is only their labour that keeps the system going, and they have the power to destroy it.

SHORT QUESTIONS

- 1 Define what Marx meant by *capital*.
- 2 What's the difference between the rate of exploitation and the rate of profit?
- 3 Why are all bosses bastards?
- 4 What happens if a capitalist consumes all the surplus value he obtains?
- 5 Could the centralisation of capital lead to there being one giant capital?
- 6 If workers are the source of surplus value, how do companies with relatively few workers (such as the oil companies) still make big profits?
- 7 What causes the booms?
- 8 Is new technology the main cause of unemployment?
- 9 Why do banks sometimes collapse? 10 What's the difference between a slump and a crisis?

DISCUSSION QUESTIONS

- 1 Marx praised and studied closely the struggle of workers to win reductions in the length of the working day. Are further reductions possible under capitalism?
- 2 Will there be accumulation under socialism?
- 3 What did Marx mean when he spoke of the 'accumulation of wealth at one pole' and the 'accumulation of misery' at the other? Does it still apply today?
- 4 Monopolies can make 'surplus profits'. Why then doesn't the increased centralisation of capital lead to a rise in the rate of profit?
- 5 Do workers' struggles help cause the crisis? Do they make it worse?
- 6 Is there a fundamental conflict of interest between the banks and industrial capital?
- 7 How do capitalists react to the crisis?

1 Marx

Unfortunately Marx's **Capital** opens with its most difficult chapters, which have deterred generations of socialists. But there is no reason why you shouldn't skip over Part One and start with chapter 4 on 'The General Formula for Capital'. Once you've read Volume I, the most important thing to read is the section on the rate of profit in Volume 3.

The Revolutionary Ideas of Karl Marx by Alex Callinicos is essential reading on Marx's ideas. There are countless other introductory texts. One of the best, which is short but expensive, is B Fine's **Marx's Capital. The Theory of Capitalist Development** by Paul Sweezy is still a classic after more than 40 years, but is wrong on the rate of profit.

A History of Economic Thought, by I Rubin, is by far the best introduction to the predecessors of Marx, the great bourgeois economists of the era when the bourgeoisie was still a revolutionary class.

2 History and capitalism today

Man's Worldly Goods by Leo Huberman is a beautifully and clearly written history of capitalism up to the 1930s (apart from its remarks on Stalin's Russia). Lenin's **Imperialism** and Bukharin's **Imperialism and the World Economy** are the classic accounts of the changes in capitalism up to the First World War. Chris Harman's **Explaining the Crisis**, as well as restating Marx's theory of crisis, gives a crisp account of the 1930s crisis, and of the Permanent Arms Economy. Nigel Harris's **Of Bread and Guns** is a panoramic survey of world capitalism today, powerfully argued and controversial (see also my review in **ISJ**, second series number 19).

3 More advanced texts

R Rosdolsky **The Making of Marx's Capital** is a great work. P Mattick—**Marx and Keynes**—is wrong on the role of the state and arms spending in modern capitalism, but still worth reading. B Fine and L Harris's **ReReading Capital** and J Weeks' **Capital and Exploitation** are the best introductions to contemporary academic debates.